

ORIGINAL

MEMORANDUM



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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

2009 JUL 15 P 1:50

AZ CORP COMMISSION
DOCKET CONTROL

DATE: July 15, 2009

RE: STAFF REPORT FOR THE APPLICATION OF WILLOW VALLEY WATER CO., INC. FOR FINANCING APPROVAL IN CONNECTION WITH THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (DOCKET NO. W-01732A-09-0182)

Attached is the Staff Report for the Company's application for authority to borrow funds from the Water Infrastructure Finance Authority of Arizona. Staff recommends approval with conditions.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 29, 2009.

EGJ:JCM:red

Originator: Juan C. Manrique

Attachment: Original and thirteen copies

Arizona Corporation Commission

DOCKETED

JUL 15 2009

DOCKETED BY	
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Service List for: Willow Valley Water Co., Inc.
Docket No. W-01732A-09-0182

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

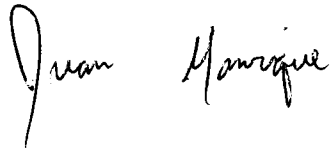
**WILLOW VALLEY WATER CO., INC.
DOCKET NO. W-01732A-09-0182**

**APPLICATION FOR FINANCING APPROVAL
IN CONNECTION WITH THE AMERICAN
RECOVERY AND REINVESTMENT ACT OF 2009**

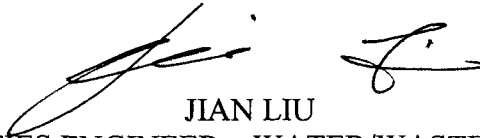
JULY 15, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Willow Valley Water Co., Inc., Docket No. W-01732A-09-0182 is the responsibility of the Staff members listed below. Juan C. Manrique is responsible for the financial analysis. Jian Liu is responsible for the engineering review.



JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I



JIAN LIU
UTILITIES ENGINEER – WATER/WASTEWATER

**EXECUTIVE SUMMARY
WILLOW VALLEY WATER CO., INC.
DOCKET NO. W-01732A-09-0182**

On April 17, 2009, Willow Valley Water Co., Inc. ("Willow Valley" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with the Water Infrastructure Finance Authority of Arizona ("WIFA").

The U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA") on February 17, 2009. WIFA's *Supplemental 2009 ARRA Intended Use Plan* asserts that projects that receive ARRA funds will need to be capable of moving forward rapidly; hence, expedited regulatory consideration is appropriate.

The Company is a for-profit Class "C" Arizona public service corporation that operates a water utility in portions of Mohave County, Arizona. The Company seeks a \$435,000 WIFA loan. The Company also anticipates receiving \$174,000, or 40 percent of the loan amount as forgivable principal reducing the effective amount of the loan to \$261,000. The forgivable principal is contingent upon compliance with ARRA. A 20-year amortizing loan at approximately 5.25 percent per annum is anticipated. The purpose of the loan is to fund a meter replacement program.

As of December 31, 2008, Willow Valley's capital structure consisted of 0.6 percent short-term debt, 7.7 percent long-term debt, and 91.7 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$435,000, 20-year amortizing loan at 5.25 percent per annum, and it is composed of 0.9 percent short-term debt, 20.0 percent long-term debt and 79.1 percent equity. Staff calculated a negative debt service coverage ("DSC") ratio for the year 2008. DSC will remain negative with the issuance of additional debt. The DSC results show that cash flow from operations in 2008 was not sufficient to cover all existing obligations. Thus, current revenues are inadequate to provide debt service on any new indebtedness. Since WIFA requires funding a "Debt Service Reserve Fund" equal to 20 percent of debt service, the Company needs sufficient revenues to provide a DSC of 1.20 or greater.

The Company needs an additional \$97,308 of revenue to achieve a 1.20 DSC on a \$435,000 loan and an additional \$80,443 on a \$261,000 loan. The latter represents the amount repayable upon compliance with the requirements of ARRA. Staff has prepared Schedules JCM-2 and JCM-3 to present the surcharges for each meter size that it deems would be appropriate to provide the required additional revenue for the \$435,000 and \$261,000 loans, respectively, should the Commission approve interim rates. The additional monthly charges for a 5/8 x 3/4-inch meter customer for these loan amounts are \$4.44 and \$3.67, respectively. Staff concludes that an evidentiary hearing may be necessary to determine the appropriateness of establishing interim rates (a surcharge) to generate the additional funds needed to achieve a 1.20 DSC on the proposed loan within the context of a fair value finding. Staff anticipates that any surcharges authorized to generate these refundable revenues will be supplanted by the rates established in the Company's currently pending rate case (Docket No. W-01732A-09-0079).

Staff has calculated a \$2.8 million fair value rate base based on the Company's unaudited financial information filed with this financing application. Staff has not audited this financial information and makes no assurances regarding it. The fair value rate base (equal to reported net plant) was determined for the sole purpose of establishing interim rates sufficient to improve the Company's DSC to at least 1.20. Accordingly, the fair value rate base should be used solely for this purpose, and it has no implications for the rate base in the general rate case or for any other purpose.

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable. Staff makes no "used and useful" determination of the proposed improvements or any conclusions for rate base or ratemaking purposes.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Willow Valley's corporate powers, and would be compatible with the public interest, consistent with sound financial practices and would not impair its ability to provide services if it could attain a 1.20 or greater DSC.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$435,000 pursuant to a loan agreement with WIFA that provides for 40 percent of the principal amount to become forgiven principal upon compliance with the American Recovery and Reinvestment Act of 2009 subject to the condition that the authorization become effective subsequent to the Company achieving a projected 1.20 DSC.

Staff further recommends that interim rates be granted to generate the additional funds needed to achieve a 1.20 DSC on the proposed loan.

Staff further recommends that Willow Valley maintain accurate records that segregate the amount of any refundable, interim revenues generated.

Staff further recommends that the Commission authorize Willow Valley to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

Staff further recommends that Willow Valley use best efforts and act in good faith to comply with all the requirements of the American Recovery and Reinvestment Act of 2009 and all requirements of WIFA in order to obtain the 40 percent forgivable principal.

Staff further recommends that the Commission take the regulatory measures it deems appropriate due to any detrimental consequences to ratepayers that may result from Willow Valley's failure to use best efforts and act in good faith to comply with the American Recovery and Reinvestment Act of 2009 that results in a reduction in the amount of the loan that would otherwise qualify as forgivable principal.

Staff further recommends that the Commission deny the Company's request for authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$435,000 in 2009 or thereafter.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff further recommends authorizing Willow Valley to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Willow Valley file with Docket Control, as a compliance item in this matter, a copy of the loan documents within 60 days of the execution of any financing transaction authorized herein.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
PUBLIC NOTICE	1
BACKGROUND	1
COMPLIANCE.....	1
PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING	1
ENGINEERING ANALYSIS	2
FINANCIAL ANALYSIS.....	2
<i>DSC</i>	2
<i>CAPITAL STRUCTURE</i>	3
<i>CAPITAL STRUCTURE INCLUSIVE OF AIAC AND CIAC</i>	3
<i>ENCUMBRANCE</i>	3
<i>REFINANCING</i>	3
<i>SURCHARGE</i>	4
CONCLUSION AND RECOMMENDATIONS	4

SCHEDULES

FINANCIAL ANALYSIS	JCM-1
FINANCIAL ANALYSIS	JCM-2
FINANCIAL ANALYSIS	JCM-3

ATTACHMENTS

ENGINEERING REPORT	A
AFFIDAVIT OF PUBLICATION	B

INTRODUCTION

On April 17, 2009, Willow Valley Inc. ("Willow Valley" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with the Water Infrastructure Finance Authority of Arizona ("WIFA").

PUBLIC NOTICE

On May 19, 2009, the Applicant filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *Mohave Valley Daily News* on May 10, 2009. The *Mohave Valley Daily News* is a newspaper of general circulation in Bullhead City, County of Mohave, State of Arizona published Sunday through Friday. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND

The U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA") on February 17, 2009. WIFA's *Supplemental 2009 ARRA Intended Use Plan* shows that ARRA authorizes it to provide an additional subsidy on loans. In addition, the *Supplemental 2009 ARRA Intended Use Plan* asserts that projects that receive ARRA funds will need to be capable of moving forward rapidly; hence, expedited regulatory consideration is appropriate.

Willow Valley is a for-profit Class "C" Arizona public service corporation located in Phoenix, Arizona. The Company operates a water utility in portions of Mohave County, Arizona.

COMPLIANCE

A check of the Compliance Database indicates that there are currently no delinquencies for Willow Valley Water Co., Inc.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The purpose of the loan is to fund a meter replacement program.

The Company requests that the Commission authorize it to secure financing in an amount not to exceed \$435,000 from WIFA. However, due to an anticipated \$174,000, or 40 percent of the loan amount, as forgivable principal, the expected repayable indebtedness is \$261,000. Company expects a 20-year amortizing loan at 5.25 percent per annum. The base interest rate is calculated by using the current prime rate of 3.25 percent plus 2.00 percent.

WIFA rule R18-15-104 requires borrowers to pledge their assets when borrowing funds from WIFA. A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets.

The Company also requests that the Commission issue an Order "Authorizing Willow Valley to have at any one time outstanding in 2009 or thereafter, long-term indebtedness (including current maturities thereof) in an aggregate principal amount of \$435,000; Permitting through such authorization any redemptions, refinancings, refundings, renewals, reissuances and rollovers of any such outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of or relating to any long-term indebtedness, so long as total long-term indebtedness at any one time outstanding does not exceed" \$435,000.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff has reviewed the Company's proposed plant additions and concludes that they are appropriate and that the associated cost estimates are reasonable. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

FINANCIAL ANALYSIS

Staff's analysis is illustrated on Schedule JCM-1. Column [A] reflects The Company's historical financial information for the year ended December 31, 2008. Column [B] presents pro forma financial information that modifies Column [A] to reflect a 20-year, \$261,000 amortizing loan at 5.25 percent per annum. Column [C] presents pro forma financial information that modifies Column [B] to reflect the \$80,443 additional revenue required to increase the DSC to 1.20. Column [D] is Column [C] modified to reflect the \$16,865 additional revenue required to achieve a 1.20 DSC when the loan amount is increased from \$261,000 to \$435,000.

DSC

DSC represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JCM-1, Column [A] shows that for the year ended December 31, 2008, the Company's DSC was negative. DSC will remain negative with the issuance of additional debt. Column [C] shows that \$80,443 of additional revenue would provide a 1.20 DSC on a \$261,000 loan. Increasing revenues by an additional \$16,865 (\$90,308 in total) would provide a 1.20 DSC on a \$435,000 loan.

Capital Structure

At December 31, 2008, the Company's capital structure consisted of 0.6 percent short-term debt, 7.7 percent long-term debt, and 91.7 percent equity (Schedule JCM-1, Column [A], lines 20-26). Staff calculated a pro forma capital structure reflecting issuance of a \$435,000, 20-year amortizing loan at 5.25 percent per annum, and it is composed of 0.9 percent short-term debt, 20.0 percent long-term debt and 79.1 percent equity (Schedule JCM-1, Column [D], lines 20-26).

Capital Structure inclusive of AIAC and CIAC

As of December 31, 2008, the Company's capital structure, inclusive of Advances-In-Aid-of-Construction ("AIAC") and Net Contributions-In-Aid-of-Construction ("CIAC")¹ consisted of 0.5 percent short-term debt, 6.3 percent long-term debt, 74.8 percent equity, 18.4 percent AIAC and 0.0 percent CIAC (Schedule JCM-1, Column [A], lines 31-41).

Encumbrance

Arizona Administrative Code ("A.A.C.") R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. A.R.S. §40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

Refinancing

The Company requests authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$435,000 in 2009 or thereafter. If this request is granted, the Commission will relinquish some control over the Company's use of debt proceeds and capital structure maintenance. Oversight of debt issuance provides ratepayer protections from the detrimental consequences of excessive leverage and misuse of funds. Blanket refinancing authorizations circumvent these protections, and they should be granted sparingly subsequent to a thorough vetting to ensure that the benefits outweigh the potential detriments. The Company's application makes no demonstration to justify its request in this case.

¹ Contributions in Aid of Construction less Accumulated Amortization of Contributions in Aid of Construction.

Surcharge

The Company needs an additional \$97,308 of revenue to achieve a 1.20 DSC on a \$435,000 loan and an additional \$80,443 on a \$261,000 loan. The latter represents the amount repayable upon compliance with the requirements of ARRA. Staff has prepared Schedules JCM-2 and JCM-3 to present the surcharges for each meter size that it deems would be appropriate to provide the required additional revenue for the \$435,000 and \$261,000 loans, respectively, should the Commission approve interim rates. The additional monthly charges for a 5/8 x 3/4-inch meter customer for these loan amounts are \$4.44 and \$3.67, respectively. Staff concludes that an evidentiary hearing may be necessary to determine the appropriateness of establishing interim rates (a surcharge) to generate the additional funds needed to achieve a 1.20 DSC on the proposed loan within the context of a fair value finding. Staff anticipates that any surcharges authorized to generate these refundable revenues will be supplanted by the rates established in the Company's currently pending rate case (Docket No. W-01732A-09-0079).

Staff has calculated a \$2.8 million fair value rate base based on the Company's unaudited financial information filed with this financing application. Staff has not audited this financial information and makes no assurances regarding it. The fair value rate base (equal to reported net plant) was determined for the sole purpose of establishing interim rates sufficient to improve the Company's DSC to at least 1.20. Accordingly, the fair value rate base should be used solely for this purpose, and it has no implications for the rate base in the general rate case or for any other purpose.

CONCLUSION AND RECOMMENDATIONS

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable. Staff makes no "used and useful" determination of the proposed improvements or any conclusions for rate base or ratemaking purposes.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Willow Valley's corporate powers, would be compatible with the public interest, consistent with sound financial practices and would not impair its ability to provide services if it could attain a 1.20 or greater DSC.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$435,000 pursuant to a loan agreement with WIFA that provides for 40 percent of the principal amount to become forgiven principal upon compliance with the American Recovery and Reinvestment Act of 2009 subject to the condition that the authorization become effective subsequent to the Company achieving a projected 1.20 DSC.

Staff further recommends that interim rates be granted to generate the additional funds needed to achieve a 1.20 DSC on the proposed loan.

Staff further recommends that Willow Valley maintain accurate records that segregate the amount of any refundable, interim revenues generated.

Staff further recommends that the Commission authorize Willow Valley to pledge its assets in the State of Arizona pursuant to A.R.S. §40-285 and R18-15-104 in connection with the WIFA loan.

Staff further recommends that Willow Valley use best efforts and act in good faith to comply with all the requirements of the American Recovery and Reinvestment Act of 2009 and all requirements of WIFA in order to obtain the 40 percent forgivable principal.

Staff further recommends that the Commission take the regulatory measures it deems appropriate due to any detrimental consequences to ratepayers that may result from Willow Valley's failure to use best efforts and act in good faith to comply with the American Recovery and Reinvestment Act of 2009 that results in a reduction in the amount of the loan that would otherwise qualify as forgivable principal.

Staff further recommends that the Commission deny the Company's request for authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$435,000 in 2009 or thereafter.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff further recommends authorizing Willow Valley to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Willow Valley file with Docket Control, as a compliance item in this matter, a copy of the loan documents within 60 days of the execution of any financing transaction authorized herein.

FINANCIAL ANALYSIS

	[A] ¹ <u>12/31/2008</u>		[B] ² <u>Pro forma</u>		[C] ³ <u>Pro forma</u>		[D] ⁴ <u>Pro forma</u>	
1 Operating Income	-\$104,315		-\$145,822 ⁵		-\$65,379		-\$48,514	
2 Depreciation & Amort.	\$126,911		\$126,911		\$126,911		\$126,911	
3 Income Tax Expense	-\$41,507		\$0 ⁵		\$0		\$0	
4								
5 Interest Expense	\$13,333		\$26,855		\$26,855		\$35,869	
6 Repayment of Principal	\$16,800		\$24,383		\$24,383		\$29,438	
7								
8								
9								
10								
11								
12 DSC								
13 [1+2+3] ÷ [5+6]	Negative		Negative		1.20		1.20	
14								
15								
16								
17								
18 Capital Structure								
19								
20 Short-term Debt	\$16,800	0.6%	24,383	0.8%	\$24,383	0.8%	\$29,438	0.9%
21								
22 Long-term Debt	\$211,153	7.7%	\$464,570	15.5%	\$464,570	15.5%	\$633,515	20.0%
23								
24 Common Equity	\$2,506,214	91.7%	\$2,506,214	83.7%	\$2,506,214	83.7%	\$2,506,214	79.1%
25								
26 Total Capital	\$2,734,167	100.0%	\$2,995,167	100.0%	\$2,995,167	100.0%	\$3,169,167	100.0%
27								
28								
29 Capital Structure (inclusive of AIAC and Net CIAC)								
30								
31 Short-term Debt	\$16,800	0.5%	\$24,383	0.7%	\$24,383	0.7%	\$29,438	0.8%
32								
33 Long-term Debt	\$211,153	6.3%	\$464,570	12.9%	\$464,570	12.9%	\$633,515	16.7%
34								
35 Common Equity	\$2,506,214	74.8%	\$2,506,214	69.4%	\$2,506,214	69.4%	\$2,506,214	66.2%
36								
37 Advances in Aid of Construction ("AIAC")	\$618,488	18.4%	\$618,488	17.1%	\$618,488	17.1%	\$618,488	16.3%
38								
39 Contributions in Aid of Construction ("CIAC") ⁶	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
40								
41 Total Capital (Inclusive of AIAC and CIAC)	\$3,352,655	100.0%	\$3,613,655	100.0%	\$3,613,655	100.0%	\$3,787,655	100.0%
42								
43 AIAC and CIAC Funding Ratio ⁷	18.4%		17.1%		17.1%		16.3%	
44 (36+38)÷(40)								
45								
46								

¹ Column [A] is based on the Company's Financial Statements for the year ended December 31, 2008.

² Column [B] is Column [A] modified to reflect issuance of the proposed \$261,000 (net of \$174,000 forgiven principal) debt financing amortized for 20 years at 5.25 percent.

³ Column [C] is Column [B] modified to reflect the additional revenue (\$80,443) required for DSC to increase to 1.20 and without principal forgiveness.

⁴ Column [D] is Column [C] modified to reflect the additional revenue (\$16,865) required for a 1.20 DSC on a \$435,000 (No \$174,000 forgiven principal) 20-year amortizing loan at 5.25 percent.

⁵ Operating Income and Income Tax Expense are adjusted to remove the negative Income Tax Expense reported by the Company and to reflect zero Income Tax Expense.

⁶ Net CIAC balance (i.e. less: accumulated amortization of contributions).

⁷ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC for private and investor owned utilities.

CALCULATION OF SURCHARGE AMOUNT

Incremental Revenue Requirement for a \$435,000 Loan **\$ 97,308**

Total Bill Equivalents **21,930**

Surcharge - 5/8 x 3/4-inch Meter	\$ 4.44 x 1	\$ 4.44
Surcharge - 3/4-inch Meter	\$ 4.44 x 1.5	\$ 6.66
Surcharge - 1-inch Meter	\$ 4.44 x 2.5	\$ 11.09
Surcharge - 1.5-inch Meter	\$ 4.44 x 5	\$ 22.19
Surcharge - 2-inch Meter	\$ 4.44 x 8	\$ 35.50
Surcharge - 3-inch Meter	\$ 4.44 x 16	\$ 71.00
Surcharge - 4-inch Meter	\$ 4.44 x 25	\$ 110.93
Surcharge - 6-inch Meter	\$ 4.44 x 50	\$ 221.86

Meter Size	Number of Customers ¹	AWWA Multiplier	Meter Equivalents	Annual Bill Equivalents	Monthly Surcharge	Yearly Surcharge
5/8" x 3/4" Meter	1518	1	1518	18,216	\$6,735.68	\$ 80,828.20
3/4" Meter	13	1.5	19.5	234	\$ 86.53	1,038.31
1" Meter	16	2.5	40	480	\$ 177.49	2,129.86
1 1/2" Meter	2	5	10	120	\$ 44.37	532.47
2" Meter	3	8	24	288	\$ 106.49	1,277.92
3" Meter	1	16	16	192	\$ 71.00	851.94
4" Meter	2	25	50	600	\$ 221.86	2,662.33
6" Meter	3	50	150	1,800	\$ 665.58	7,986.98
TOTAL	1558		1827.5	21,930		\$ 97,308.00

¹ As of December, 2008.

CALCULATION OF SURCHARGE AMOUNT

Incremental Revenue Requirement for a \$435,000 Loan **\$ 80,443**

Total Bill Equivalents **21,930**

Surcharge - 5/8 x 3/4-inch Meter	\$ 3.67 x 1	\$ 3.67
Surcharge - 3/4-inch Meter	\$ 3.67 x 1.5	\$ 5.50
Surcharge - 1-inch Meter	\$ 3.67 x 2.5	\$ 9.17
Surcharge - 1.5-inch Meter	\$ 3.67 x 5	\$ 18.34
Surcharge - 2-inch Meter	\$ 3.67 x 8	\$ 29.35
Surcharge - 3-inch Meter	\$ 3.67 x 16	\$ 58.69
Surcharge - 4-inch Meter	\$ 3.67 x 25	\$ 91.70
Surcharge - 6-inch Meter	\$ 3.67 x 50	\$ 183.41

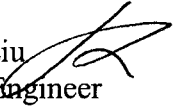
Meter Size	Number of Customers	AWWA Multiplier	Meter Equivalents	Annual Bill Equivalents	Monthly Surcharge	Yearly Surcharge
5/8" x 3/4" Meter	1518	1	1518	18,216	\$5,568.28	\$ 66,819.41
3/4" Meter	13	1.5	19.5	234	\$ 71.53	858.35
1" Meter	16	2.5	40	480	\$ 146.73	1,760.72
1 1/2" Meter	2	5	10	120	\$ 36.68	440.18
2" Meter	3	8	24	288	\$ 88.04	1,056.43
3" Meter	1	16	16	192	\$ 58.69	704.29
4" Meter	2	25	50	600	\$ 183.41	2,200.90
6" Meter	3	50	150	1,800	\$ 550.23	6,602.71
TOTAL	1558		1827.5	21,930		\$ 80,443.00

¹ As of December, 2008.

MEMORANDUM

DATE: May 6, 2009

TO: Juan Manrique
Public Utilities Analyst I
Utilities Division

FROM: Jian W. Liu 
Utilities Engineer
Utilities Division

RE: Willow Valley Water Co., Inc.
Docket No. W-01732A-09-0182 (Financing)

Introduction

Willow Valley Water Co., Inc. ("Willow Valley" or the "Company") is an Arizona public service corporation authorized to provide water service within portions of Mohave County, Arizona. Willow Valley received its initial Certificate of Convenience and Necessity ("CC&N") from the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 34869 (dated Nov. 20, 1963). Willow Valley provided service to 1,588 customers as of March 31, 2009.

Financing Application

On April 17, 2009, the Company filed an application with the Commission requesting authority to borrow \$435,000 from the Water Infrastructure Authority of Arizona ("WIFA") in conjunction with the American Recovery and Reinvestment Act of 2009 ("ARRA").¹

If the financing is approved, Willow Valley will use the funds for a meter replacement program. According to the Company, Willow Valley's meters are currently out-dated. The meters will be replaced by modern meters that will allow remote readings by radio.

Engineering Analysis

Willow Valley Water Company has historically experienced a higher than desirable iron and manganese concentration with the distribution system. Early in 2008, Willow Valley water Company deployed an iron and manganese treatment solution which has resolved the iron and manganese issue. However, with years of iron and manganese build up within the meters these meters require replacement. Many of these meters are over 30 years old. Replacing these meters

¹ WIFA has advised the Company that the proposed meter replacement project will qualify for funding under ARRA.

will more accurately measure the water utilized and should reduce the amount of unaccounted for water. Additionally, the meters under this project are being equipped with drive-by meter radio heads. This will eliminate the current manual metering process which utilizes significant labor and resources to obtain the reads. With the new radio reading meters, the operators will simply be able to drive the meter route and collect all of the reads in less than day.

Cost Analysis

The Company's estimated cost for the proposed new meter replacement program is as follows:

Willow Valley Water Company DW 177-2009 Meter Replacement Cost Estimate with Breakdowns	
Uses by Budget Item	WIFA Funding
Planning	
Meter Selection Planning	\$5,000.00
GIS Mapping	\$10,000.00
Meter Audit	\$2,500.00
Determine AMR Technology	\$5,000.00
Installation Planning	\$12,500.00
Design & Engineering	N/A
Legal/Debt Authorization	N/A
Financial Advisor	N/A
Land/System Acquisition	N/A
Equipment/Materials	
Meter Materials - Mountain States, PO 62208001(01)	\$155,824.24
AMR Radio Heads	\$144,175.76
Construction/Installation/Improvement	
Installation (Local Operators)	\$50,000.00
Inspection & Construction Management	
Construction Inspection	\$25,000.00
Project Officer	
Site Project Manager	\$20,000.00
Administration	
Administration	\$5,000.00
Staff Training	N/A
Capitalized Interest	N/A
Other	N/A
Total for Project	\$435,000.00

Staff has reviewed the Company's proposed plant additions and concludes that they are appropriate and that the associated cost estimates are reasonable. However, no "used and useful"

determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

Arizona Department of Environmental Quality ("ADEQ") Compliance Status

ADEQ regulates the Company's Water Systems under ADEQ Public Water System ("PWS") #08-040 and #08-129. Based on compliance information submitted by the Company, the systems have no deficiencies and ADEQ has determined that these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ reports dated 2/13/09)

Arizona Corporation Commission Compliance Status

A check with the Utilities Division Compliance Section showed that there is one (1) delinquency for Willow Valley Water Company, it is as follows:

According to Commission Decision No.68610, regarding Willow Valley's application for a CC&N extension, the Company should obtain and file with Docket Control, as a compliance item, copies of the Developer's Letter of Adequate Water Supply, stating that there is adequate water by March 23, 2009. However, the company filed for an "Extension of Time" back on March 23, 2009, and is awaiting Staff response and an ACC Decision.

Arizona Department of Water Resources Compliance ("ADWR") Status

The Company is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.

Staff received an ADWR compliance status report on April 30, 2009, ADWR reported that it has determined that Willow Valley is currently in compliance with departmental requirements governing water providers and/or community water systems.

ORIGINAL

BEFORE THE ARIZONA CORPORATION

RECEIVED

COMMISSIONERS

KRISTIN K. MAYES, Chairman

GARY PIERCE

PAUL NEWMAN

SANDRA D. KENNEDY

BOB STUMP

2009 MAY 19 P 4:19

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
WILLOW VALLEY WATER CO., INC FOR
FINANCING APPROVAL IN CONNECTION
WITH THE AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009.

DOCKET NO.: W-01732A-09-0182

NOTICE OF FILING

Willow Valley Water Co., Inc. ("Willow Valley") files the Affidavit of Publication
showing that the public notice of application in this docket has been given.

RESPECTFULLY SUBMITTED this 19th day of May 2009

ROSHKA, DEWULF & PATTEN

Arizona Corporation Commission
DOCKETED

MAY 19 2009

DOCKETED BY

By

Michael W. Patten

Timothy J. Sabo

One Arizona Center

400 East Van Buren Street, Suite 800

Phoenix, AZ 85004

Original and 13 copies of the foregoing
filed this 19th day of May 2009 with:

Docket Control

ARIZONA CORPORATION COMMISSION

1200 West Washington Street

Phoenix, AZ 85007

ROSHKA DEWULF & PATTEN, PLC.
400 VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 Copy of the foregoing hand-delivered/mailed
this 19th day of May 2009 to:

2 Lyn Farmer, Esq.
3 Chief Administrative Law Judge
Hearing Division
4 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
5 Phoenix, AZ 85007

6 Janice Alward, Esq.
7 Chief Counsel, Legal Division
ARIZONA CORPORATION COMMISSION
8 1200 West Washington Street
Phoenix, AZ 85007

9 Ernest G. Johnson, Esq.
10 Director, Utilities Division
11 ARIZONA CORPORATION COMMISSION
12 1200 West Washington Street
Phoenix, AZ 85007

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14 By Rebbie Amund
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Proof of Publication

STATE OF ARIZONA } ss.
County of Mohave }

Gianna Ragan, being first duly sworn, says that during the publication of the notice, as herein mentioned, he/she was and now is the Legal Clerk of the MOHAVE VALLEY DAILY NEWS, six times weekly newspaper published on Sunday, Monday, Tuesday, Wednesday, Thursday and Friday of each and every week at the city of Bullhead City, in said county.

That said newspaper was printed and published as aforesaid on the following dates, to-wit:

[illegible]

That the Public Notice of an Application for an Order

of which the annexed copy is a printed and true copy, was printed and inserted in each and every copy of said newspaper printed and published on the dates aforesaid, and in the body of said newspaper and not in a supplement thereto.

Subscribed and sworn to before me this 18
day of Jun 2009, 2009

Karen J. Sullivan
Notary Public

(My commission expires 10-2-12)

PUBLIC NOTICE

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AN APPLICATION FOR AN ORDER

AUTHORIZING THE ISSUANCE OF \$435,000 long-term debt by Willow Valley Water Co. Inc.

[illegible]

Information in the Commission's proceedings on the Application shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Company and which, as a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person (person whom service of documents is to be made if different) for the intervenor;
2. A short statement of the proposed intervenor's interest in the proceeding;
3. Whether the proposed intervenor desires a formal evidentiary hearing, the application and the reasons for such a hearing;
4. A statement certifying that a copy of the Motion to Intervene has been mailed to AUSA and

The granting of motions to intervene shall be governed by A.A.C. 814-5 except that all motions to intervene must be filed on, or before, the 15th day after notice.

Placed May 10, 2008
16570802

